ACCOUNTING ENTRIES FOR ACCOUNT 1739
ACCUMULATED DEPRECIATION ON BUILDINGS, IMPROVEMENTS AND RENOVATIONS

1.	Dr	6710 Depreciation, Amortization and Depletion	
	Cr	1739 Accumulated Depreciation on Buildings, Improvements and Renovations	
		To record the depreciation expense for the current accounting period.	
2.	Dr	1739 Accumulated Depreciation on Buildings, Improvements and Renovations	
	Dr	5730 Financing Sources Transferred Out Without Reimbursement	
	Cr	1730 Buildings, Improvements and Renovations	
		To record the value of facilities transferred without reimbursement to another federal agency or DoD Component. This entry shall not be used to record disposals.	
3.	Dr	1739 Accumulated Depreciation on Buildings, Improvements and Renovations	
	Cr	1730 Buildings, Improvements and Renovations	
		To write off fully depreciated improvements upon disposal.	
4.	Dr	1739 Accumulated Depreciation on Buildings, Improvements and Renovations	
	Dr	7210 Losses on Disposition of Assets -Other	
	Cr	1730 Buildings, Improvements and Renovations	
		To record the nonreimbursable loss, damage or destruction of a building or to record the loss on the disposal of a building.	

TABLE 6-8

ACCOUNTING ENTRIES TO ACCOUNT 1749
ACCUMULATED DEPRECIATION ON OTHER STRUCTURES AND FACILITIES

1.	Dr	6710	Depreciation, Amortization and Depletion
	Cr	1749	Accumulated Depreciation on Other Structures and Facilities
			To record depreciation expense for other structures and facilities.
2.	Dr	1749	Accumulated Depreciation on Other Structures and Facilities
	Dr	5730	Financing Sources Transferred Out Without Reimbursement
	Cr	1740	Other Structures and Facilities
			To record the value of facilities transferred without reimbursement to another federal agency or DoD Component. This entry shall not be used to record disposals.
3.	Dr	1749	Accumulated Depreciation on Other Structures and Facilities
	Cr	1740	Other Structures and Facilities
			To write off fully depreciated structures and facilities upon disposal.
4	Dr	1749	Accumulated Depreciation on Other Structures and Facilities
	Dr	7210	Losses on the Disposition of Assets - Other
	Cr	1740	Other Structures and Facilities
			To record the nonreimbursable loss, damage or destruction of other structures and facilities or to record the loss on the disposal of structures and facilities.

TABLE 6-9

ACCOUNTING ENTRIES TO ACCOUNT 1759
ACCUMULATED DEPRECIATION ON EQUIPMENT

1.	Dr	6710 Depreciation , Amortization and Depletion	
	Cr	1759 Accumulated Depreciation on Equipment	
		To record depreciation expense for equipment.	
2.	Dr	1759 Accumulated Depreciation on Equipment	
	Cr	1750 Equipment	
		To write off fully depreciated equipment upon disposal.	
3.	Dr	1759 Accumulated Depreciation on Equipment	
	Dr	7210 Losses on Disposition of Assets - Other	
	Cr	1750 Equipment	
		To record the nonreimbursable loss, damage or destruction of equipment or to record the loss on the disposal of equipment.	
4.	Dr	1759 Accumulated Depreciation on Equipment	
	Dr	7290 Other Losses	
	Cr	1750 Equipment	
		To record a decrease in equipment discovered by physical inventory.	
5.	Dr	1759 Accumulated Depreciation on Equipment	
	Dr	5730 Financing Sources Transferred Out Without Reimbursement	
	Cr	1750 Equipment	
		To record the value of equipment transferred without reimbursement to another federal agency or DoD Component. This entry shall not be used to record disposals.	

TABLE 6-10

ACCOUNTING ENTRIES FOR ACCOUNT 1890
OTHER GENERAL PP&E

1. Dr 1890 Other General PP&E
   Cr 1711 Land and Land Rights

   To record the value of land identified for disposal as the result of a BRAC action and transferred to Other General PP&E.

2. Dr 1890 Other General PP&E
   Dr 1739 Accumulated Depreciation on Buildings, Improvements and Renovations
   Cr 1730 Buildings, Improvements and Renovations
   Cr 7110 Gains on Disposition of Assets - Other

   To record the value of buildings, improvements and renovations identified for disposal because of BRAC and transferred to the Other General PP&E account when the expected NRV is greater than the book value of the assets transferred.

3. Dr 1890 Other General PP&E
   Dr 1739 Accumulated Depreciation on Buildings, Improvements and Renovations
   Dr 7210 Losses on Disposition of Assets - Other
   Cr 1730 Buildings, Improvements and Renovations

   To record the value of buildings, improvements and renovations identified for disposal as a result of BRAC and transferred to the Other General PP&E account when the expected NRV is less than the book value of the assets transferred.

4. Dr 1890 Other General PP&E
   Dr 1749 Accumulated Depreciation on Other Structures and Facilities
   Cr 1740 Other Structures and Facilities
   Cr 7110 Gains on Disposition of Assets - Other

   To record the value of other structures and facilities identified for Disposal as a result of BRAC and transferred to the Other General PP&E account when the expected NRV is greater than book value of the assets transferred.

TABLE 6-11

ACCOUNTING ENTRIES FOR ACCOUNT 1890
OTHER GENERAL PP&E (CONTINUED)

5.	Dr	1890 Other General PP&E	
	Dr	1749 Accumulated Depreciation on Other Structures and Facilities	
	Dr	7210 Losses on Disposition of Assets - Other	
	Cr	1740 Other Structures and Facilities	
		To record the value of other structures and facilities identified for disposal as a result of BRAC and transferred to the Other General PP&E account when the expected NRV is less than book value of the assets transferred.	
6.	Dr	1890 Other General PP&E	
	Dr	1759 Accumulated Depreciation on Equipment	
	Cr	1750 Equipment	
	Cr	7110 Gains on Disposition of Assets - Other	
		To record the value of equipment identified for disposal as a result of BRAC and transferred to the Other General PP&E account when the expected NRV is greater than book value of the assets transferred.	
7.	Dr	1890 Other General PP&E	
	Dr	1759 Accumulated Depreciation on Equipment	
	Dr	7210 Losses on Disposition of Assets - Other	
	Cr	1750 Equipment	
		To record the value of equipment identified for disposal as a result of BRAC and transferred to the Other General PP&E account when the expected NRV is less than book value of the assets transferred.	

Table 6-11 (continued)

060206. Assets Under Capital Lease (Account 1810)

A. Definitions

1. Lease Term. For non-operating leases, the lease term is the fixed non-cancelable term of the lease plus all periods, if any, representing renewals or extensions of the lease that can reasonably be expected to be taken.

2. Noncancelable. Noncancelable means the lease is cancelable only on the occurrence of a remote contingency. Funds that are not appropriated by the Congress in future years to cover the lease are considered a remote contingency.

3. Bargain Purchase Option. A lessee's option to purchase leased property for a price which is sufficiently lower than the expected fair value of the property at the date the option becomes exercisable that, at inception of the lease, makes the exercise of the option reasonably assured.

4. Estimated Economic Life. The estimated remaining period during which the property is expected to be economically usable by one or more users, with normal repairs and maintenance, for the purpose for which it was intended at the inception of the lease, without limitation by the lease term.

5. Minimum Lease Payments. The payments that the lessee is obligated to make or can be required to make in connection with the leased property. (Contingent rentals are excluded from the minimum lease payments.)

6. Fair Value. The price for which the property could be sold in an arm's-length transaction between unrelated parties.

7. Interest Rate Implicit in the Lease. The discount rate that, when applied to the minimum lease payments (less executory costs and the unguaranteed residual value), causes the aggregate present value at the beginning of the lease term to be equal to the fair value of the leased property at the inception of the lease.

8. Renewal or Extension of a Lease. The continuation of a lease agreement beyond the original lease term, including a new lease under which a lessee continues to use the same property.

B. The Assets Under Capital Lease account is used to record the present value of the leased asset and other lease payments during the lease term, excluding that portion of the payments representing executory costs such as insurance, maintenance, and taxes paid to the lessor under terms of the lease.

C. A lease conveys the use of an asset or part of an asset (such as part of a building) from one entity, the lessor, to another, the lessee, for a specified period of time in return for rent or other compensation. Lessees have capital or operating leases while lessors have sales-type, direct financing or operating leases. Capital, sales-type, and direct financing leases transfer substantially all the benefits and risks of ownership from the lessor to the lessee.

D. When a lease is a capital lease, the lessee shall record the applicable asset and liability at lease inception. The amount to be recorded under a capital lease is the present value of the rental property and other lease payments during the lease term, excluding that portion of the payments representing executory costs such as insurance, maintenance and taxes paid to the lessor.

If the present value amount, however, exceeds the fair value of the leased property at the inception of the lease, the amount recorded shall be the fair value. If the executory costs portion of the minimum lease payments cannot be determined, the amount should be estimated. In such cases, the substance of the arrangement, rather than its legal form, shall determine the accounting treatment. All other leases should be accounted for as operating leases with no balance sheet recognition.

E. Lessees shall classify a lease as a capital lease if one of the following four criteria is met:

1. the lease transfers ownership of the property to the lessee by, or at, the end of the lease term.

2. the lease contains an option to purchase the leased property at a bargain price (see paragraph A.3, above).

3. the lease term (non-cancelable portion plus all periods, if any, representing renewals or extensions that can reasonably be expected to be taken) is equal to or greater than 75 percent of the estimated economic life of the leased property.

4. the present value of rental and other minimum lease payments, excluding that portion representing executory costs to be paid by the lessor, equals or exceeds 90 percent of the fair value of the leased property. The lessee shall compute the present value of the minimum lease payments using the interest rate as of January 1 each year of the Treasury Instrument (bill, note or bond) that matches the term of the lease. (For example, the interest rate for a 12.5-year capital lease would be the average of the interest rates for a 10-year T-Bill and a 15-year T-Bill.) unless:

a. it is practicable for the lessee to learn the interest rate implicit in the lease computed by the lessor,

b. and the implicit rate computed by the lessor is less than the Treasury Instrument Rate.

F. The criteria cited in E.3 and E.4, above, do not apply if the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property. (While leases with the GSA typically do not meet the capital lease criteria, if such a lease does meet the criteria it should be capitalized.)

G. If a lease does not meet at lease one of the above four criteria, it should be classified as an operating lease. Operating leases of PP&E are leases in which the entity does not assume the risks of ownership of the PP&E. Multi-year service contracts and multi-year purchase contracts for expendable commodities are not capital leases.

H. A portion of each lease payment shall be allocated to interest expense, and the balance shall be applied to reduce the lease liability using the effective interest rate method. (Interest is calculated on the balance of the lease obligation for each period, and the remainder of the payment is applied as a reduction of the lease obligation.) The periodic payment amount allocated to interest expense shall be computed based on the interest rate used to compare the present value of minimum lease payments, unless the lease is recorded at fair value. For such leases, trial and error must be used to compute the interest rate for application to the balance of the lease obligation.

I. For leases with a residual guarantee by the lessee or a penalty for failure to renew the lease at the end of the lease term, following the amortization method in *Volume 4, Chapter 7*, paragraph 070207.F generally should result in a liability balance that will equal the amount of the guarantee or penalty at the end of the lease term. If a renewal or other extension of the lease term or a new lease under which the lessee continues to lease the same property renders the guarantee or penalty inoperative, the asset and the liability under the lease shall be adjusted by an amount equal to the difference between the present value of the future minimum lease payments under the revised agreement and the present balance of the liability. The present value of future minimum lease payments under the revised lease agreement shall be computed using the rate of interest used to record the lease initially. Other renewals and extensions of lease terms shall be considered new agreements.

J. Sources for entries to these accounts include contracts, payment documents, amortization schedules, and journal vouchers.

K. Table 6-12 illustrates common entries for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 1810
ASSETS UNDER CAPITAL LEASE

1.	Dr	1810	Assets Under Capital Lease
	Cr	2940	Capital Lease Liability
			To record the present value of a capital lease.
2.	Dr	1819	Accumulated Depreciation on Assets Under Capital Lease
	Dr	2940	Capital Lease Liability
	Dr	7210	Losses on Disposition of Assets - Other
	Cr	1810	Assets Under Capital Lease
			To record disposition of an asset held under a capital lease at a loss.

TABLE 6-12

060207. Accumulated Depreciation on Assets Under Capital Lease (Account 1819).

A. The Accumulated Depreciation on Assets Under Capital Lease account accumulates the annual/periodic depreciation expense for assets under capital lease. The depreciation recovery period (useful life) to be used to depreciate personal or real property acquired by a capital lease is the recovery period designated for the type of property indicated in Table 6-7, unless the lease period is less than the recovery period in the table. For example, if a capital lease is used to acquire a fire truck (which has a 5-year recovery period), then the fire truck would be depreciated over five years if the lease period is for at least five years. In the same example, if the lease period is only four years, the fire truck would be fully depreciated over four years.

B. This account shall be used by those activities that are authorized to enter into capital lease agreements.

C. Sources for entries to this account include journal vouchers showing the basis for the depreciation computation. Financial record retention requirements for such vouchers are contained in Volume 1, Chapter 9 of this Regulation.

D. Table 6-13 illustrates common entries for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 1819
ACCUMULATED DEPRECIATION ON ASSETS UNDER CAPITAL LEASES

1.	Dr	6710	Depreciation, Amortization and Depletion
	Cr	1819	Accumulated Depreciation on Assets Under Capital Leases
			To record depreciation of an asset acquired by capital lease.
2.	Dr	1819	Accumulated Depreciation on Assets Under Capital Lease
	Dr	2940	Capital Leases Liability
	Dr	7210	Losses on Disposition of Assets - Other
	Cr	1810	Assets Under Capital Lease
			To record disposition of an asset acquired by capital lease at a loss.

TABLE 6-13

060208. Leasehold Improvements (Account 1820).

A. The Leasehold Improvement account is used to record the value of capitalized improvements to leased property. When leasehold improvements meet or exceed DoD capitalization criteria (see paragraph 060103.A.1.d of this chapter), such improvements shall be

capitalized and amortized for the remainder of the lease period or 20 years whichever is less. Sources for entries to this account include journal vouchers and documents transferring completed construction projects to this account. Table 6-14 illustrates common entries for the account.

B. Accumulated Amortization on Leasehold Improvements (Account 1829). The account, Accumulated Amortization on Leasehold Improvements, is used to accumulate the periodic amortization expense for leasehold improvements. Sources for entries to this account include journal vouchers with workpapers supporting the computation of the amounts to be amortized over the life of the lease. Table 6-14 illustrates common entries for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 1820
LEASEHOLD IMPROVEMENTS
AND ACCOUNT 1829
ACCUMULATED AMORTIZATION ON LEASEHOLD IMPROVEMENTS

1.	Dr	1820 Leasehold Improvements	
	Cr	1720 Construction-in-Progress	
		To record the value of completed improvements to leased property.	
2.	Dr	6710 Depreciation, Amortization and Depletion	
	Cr	1829 Accumulated Amortization on Leasehold Improvements	
		To record the amortization expense for the accounting period.	
3.	Dr	1829 Accumulated Amortization on Leasehold Improvements	
	Cr	1820 Leasehold Improvements	
		To write off fully amortized leasehold improvements.	

TABLE 6-14

060210. Internal Use Software (Account 1830).

A. Definition. Internal Use Software includes application and operating system programs, procedures, rules, and any associated documentation pertaining to the operation of a computer system or program that is used for operational or other internal use. Normally, software is an integral part of an overall system having interrelationships between software, hardware, personnel, procedures, controls, and data. Internal Use Software does not include software embedded in military equipment, nor does it include software used in Special Test Equipment. Internal Use Software is software that is:

1. purchased from commercial off-the-shelf (COTS) vendors or ready for use with little or no changes,

2. developed by employees of DoD, including new software and existing or purchased software that is modified with or without a contractor's assistance,

3. contractor-developed software that DoD paid a contractor to design, program, install, and implement, including new software and the modification of existing or purchased software,

4. or includes acquisition, finance, logistics, personnel or other business related systems.

B. Recognition, Measurement. Internal Use Software is recognized and capitalized if it has a useful life of two years or more, provides a significant increase in functionality that is visible to the user (in the case of enhancements) and the cost of the software or enhancement equals or exceeds DoD capitalization threshold. An upgrade is not necessarily a capital improvement. If an upgrade modernizes an operating system, it is normally expensed since the user does not see a significant increase in functionality. As development work accumulates, the costs will be entered into an Internal Use Software In Development account (Account 1832). When the software is accepted, the accumulated costs shall be removed from this "In Development" account, and the cost of the software or enhancement shall be transferred to the Internal Use Software account (Account 1830). Table 6-16 provides examples of these accounting transactions.

1. COTS Software. The capitalized cost of COTS software shall be the actual purchase price, plus any costs incurred for implementation.

2. Contractor Developed Software. The capitalized cost of contractor-developed software shall include the amount paid to the contractor to design, program, install, and implement new software or to modify existing or COTS software, plus any costs incurred for implementation.

3. Internally Developed Software. The capitalized cost of internally developed software shall include the full cost (direct and indirect costs) incurred during the software development phase. Full cost includes the costs of new software (e.g., contract cost, salaries of programmers, systems analysts, project managers, and administrative personnel; associated employee benefits; outside consultants' fees; rent; and supplies and overhead) and technical documentation. The development of technical documentation and manuals is capitalized. The costs of mass-producing manuals are expensed. Project management (direct labor) costs are those cost specifically associated with a particular project and is capitalized. Program management (indirect labor) costs are labor costs associated with an entire program consisting of several individual projects. The costs of program management and the Program Management Office (PMO) that may be incurred during each phase of software development or acquisition project shall be expensed or capitalized depending on their materiality to overall costs of individual software development projects and each phase and/or preponderance of development or acquisition work. Capitalized costs shall be limited to costs incurred after the preliminary design phase. Table 6-15 provides a matrix of software acquisition and development

costs and provides additional guidance regarding whether such costs will be expensed or capitalized. The various types of costs incurred during software acquisition and development are explained below:

(a) Direct Labor Costs. Direct labor costs are typically the labor costs of project teams (e.g. programmers, engineers, managers) and are capitalized as part of the costs of the software project. Direct labor costs shall be tracked by project managers and/or program managers and allocated to individual software projects. The allocation methodology must be consistent between projects and must be auditable.

(b) Indirect Labor Costs. Indirect labor costs are typically the labor costs associated with the Program Management Office (PMO) personnel responsible for overseeing more than one software project. In many instances, PMO indirect labor costs are immaterial when compared with the overall costs of a software project, and if determined to be immaterial, will be expensed. PMO indirect costs shall be expensed or capitalized, depending on: 1) their materiality to overall costs of individual software development projects and 2) in which phase the costs incurred. Decisions regarding the materiality of indirect labor costs, when such costs are expensed, must be justified, documented and must stand up to audit scrutiny. If indirect labor costs are determined to be material to a software project or projects and are to be distributed to the capitalized costs of such project, the costs shall be allocated based on a distribution methodology that it is both documented and auditable.

(c) Overhead Costs. Overhead costs are those costs associated with utilities, building maintenance, and supplies that are essential to the overall accomplishment of a software project. In many instances, overhead costs are immaterial when compared with the overall costs of a software project and if determined to be immaterial, will be expensed. Decisions regarding the materiality of overhead costs when such costs are to be expensed must be justified, documented, and must stand up to audit scrutiny. If overhead costs are determined to be material to a software project or projects and are to be distributed to the capitalized costs of such project, the costs shall be allocated based on a distribution methodology that it is both documented and auditable.

(d) Contractor Costs. Contract costs must be evaluated to determine whether the costs are to be expensed or capitalized. Such determination is based on the type of work performed by the contractors. Table 6-15 provides a breakdown of the various work activities and whether the cost of such activities must be expensed or capitalized.

SOFTWARE ACQUISITION PHASES		
PRELIMINARY DESIGN PHASE	**SOFTWARE DEVELOPMENT PHASE**	**POST-IMPLEMENTATION/ OPERATIONAL PHASE**
EXPENSE COSTS	**CAPITALIZE COSTS**	**EXPENSE COSTS**
Activities: • Determination of existence of needed technology • Conceptual formulation of alternatives • Evaluation and testing of alternatives • Final selection of alternatives	Activities: • Design of chosen path, including software configuration and software interfaces • Coding • Technical documentation • Development of user manuals • Installation on hardware • Testing, including parallel processing • Training development	Activities: • Data conversion (includes cleansing, deleting, and repackaging data) • Application maintenance • Implementation assistance (e.g., troubleshooting, system analysis, producing and printing users manuals desk procedures, and similar support to the project's customers)
This phase includes all actions leading to source selection of a COTS or other commercial source. For internally developed software, this phase includes all actions prior to System Requirements Specification (SRS).	Software development starts after the Preliminary Design Phase and includes all development actions such as design, programming, and installation.	Post-implementation includes all operational testing and evaluation, as well as other functional testing conducted after technical acceptance and includes costs incurred to make customer ease of use changes.
PROGRAM MANAGEMENT The costs of program management and the Program Management Office (PMO) that may be incurred during each phase of software development or acquisition are indirect costs. PMO indirect costs shall be expensed or capitalized, depending on: 1) their materiality to overall cost of individual software development projects and 2) in which phase the costs were incurred.		

Table 6-15

4. Software Developed by One Activity and Used by Others Without Reimbursement. Software that is developed by one activity and used by another activity or activities without reimbursement shall be capitalized and depreciated by the developing activity (if it meets the capitalization criteria). For example, if the Tricare Management Activity (TMA), of the Defense Health Program, develops software (that meets the capitalization criteria) and installs the software at multiple DoD medical treatment facilities, the TMA shall capitalize and depreciate the software. The cost of the software shall not be allocated to the using activities.

C. Data Conversion Costs. All data conversion costs incurred for internally developed, contractor developed or COTS software shall be expensed as incurred, including the cost to develop or obtain software that allows for access or conversion of existing data to the new software. Such costs may include the purging or cleansing of existing data, reconciliation or balancing of data, and the creation of new/or additional data.

D. Costs Incurred After Final Acceptance Testing (Cutoff). Costs incurred after final acceptance testing has been successfully completed shall be expensed. Acceptance testing is that testing undertaken to verify if a software product meets specifications. Operational testing and evaluation and other functional testing conducted to ease customer use after technical acceptance shall be expensed. When the software is to be installed and capitalized at multiple sites, the capitalization phase ends after acceptance testing is complete at each of those sites.

E. Integrated (Embedded) Software. Computer software that is integrated into (embedded) and necessary to operate equipment (rather than perform an application) shall be considered part of the equipment of which it is an integral part and capitalized and depreciated as part of the cost of equipment (e.g., airport radar and computer-operated lathes). The aggregate cost of the hardware and software shall be used to determine whether to capitalize or expense the costs.

F. Bundled Products and Services. The cost of software purchased as part of a package of products and services (e.g., training, maintenance, data conversion, reengineering, site licenses, and rights to future upgrades and enhancements) shall be allocated as capitalizable and non-capitalizable (expensed) costs based on a reasonable estimate of the value of the individual products or services. Costs that are not susceptible to allocation between maintenance and relatively minor enhancements should be expensed.

G. Bulk Purchases of Software. Bulk purchases of software programs and modules or components of a total software system that individually meet DoD capitalization threshold shall be capitalized. If the per item cost of a bulk purchase (e.g., numerous copies of spreadsheets and word-processing programs) does not meet DoD capitalization threshold, the bulk purchase shall be expensed in the period acquired.

H. Enhancements.

1. The acquisition cost of enhancements to existing Internal Use Software (and modules thereof) shall be capitalized when such costs exceed DoD capitalization threshold, and when it is more likely than not that such enhancements will result in a significant increase in functionality that is apparent to the user. For example, if existing software is modified for making ad hoc queries, the cost shall be capitalized if it exceeds the capitalization threshold. The cost of routine or minor changes or modernizations that do not significantly add functionality shall be expensed in the period incurred. Examples include updating data tables, web-enabling, customizing reports, or changing graphic user interfaces. Also, the cost of enhanced versions of software for a nominal charge is expensed in the period incurred.

2. Enhancements normally require new software specifications and may require a change of all or part of the existing software specifications as well.

3. The cost incurred solely to repair a design flaw or to perform minor upgrades that may extend the useful life of the software without adding new capabilities shall be expensed. This includes updating the technical platform of a system.

I. Impairment.

1. Post Implementation/Operational Software.

a. Impairment shall be recognized and measured when one of the following occurs and is related to post implementation/operational software and or modules thereof:

(1) The software is no longer expected to provide substantive service potential and will be removed from service.

(2) A significant reduction occurs in the capabilities, functions or uses of the software (or a module thereof).

b. If the impaired software is to remain in use, the loss due to impairment shall be measured as the difference between the book value and either:

(1) the cost to acquire software that would perform similar remaining functions (e.g., the unimpaired functions) or, if that is not feasible;

(2) or the portion of the book value attributable to the remaining functional elements of the software. The loss shall be recognized upon impairment, and the book value of the asset reduced accordingly. If neither (a) nor (b) above can be determined, the book value shall continue to be amortized over the remaining useful life of the software.

c. If the impaired software is to be removed from use, the loss due to impairment shall be measured as the difference between the book value and the net realizable value (NRV), if any. Typically, the NRV will be zero (0). The loss shall be recognized upon impairment and the book value of the asset reduced accordingly. The NRV, if any, should be transferred to any appropriate asset account until such time as the software is disposed of and the amount is realized.

2. Termination of Software Under Development. When it is determined that software under development (or a module thereof) will not be completed and placed in service, the related book value accumulated for the software (or the balance in a work-in-process account, if applicable) should be reduced to reflect the expected NRV, if any, and the loss recognized. The following are indications of this:

a. Expenditures are neither budgeted nor incurred for the project

b. Programming difficulties cannot be resolved on a timely basis

c. Major cost overruns occur

d. Information has been obtained indicating that the cost of developing the software will significantly exceed the cost of COTS software available from third party vendors; hence, management intends to obtain the product from those vendors instead of completing the project

e. Technologies that supersede the developing software product are introduced

f. The responsibility unit for which the product was being created is being discontinued.

J. Amortization/Depreciation.

1. Software that is capitalized shall be amortized/depreciated as provided for in this chapter. The DoD Standard Recovery Period used for depreciation shall be consistent with that used for planning the software's acquisition. See Table 6-7, "DoD Recovery Periods for Depreciable General PP&E Assets" for the specific recovery periods (useful lives) for software.

2. For each module or component of a software project, amortization/depreciation should begin when that module or component has been successfully tested. If the use of a module is dependent on completion of another module(s), the amortization/depreciation of that module shall begin when both that module and the other module(s) have successfully completed testing.

3. When Internal Use Software is replaced with new software, the undepreciated cost of the old software shall be expensed when the new software successfully completes testing. No adjustments will be made to the previously recorded amortization/depreciation. Any additions to the book value or changes in useful life should be treated prospectively. The change should be accounted for during the period of the change and future periods.

4. Internal Use Software must be accounted for in an automated property accountability system.

5. Table 6-17, below, provides a decision tree to assist in determining if an Internal Use Software project shall be capitalized.

K. Disclosures. Financial statement disclosures required for Internal Use Software are the same as that for other General PP&E. Thus, the following should be disclosed in the financial statements:

1. The cost, accumulated depreciation, and net book value

2. The estimated useful life

3. The method of depreciation (straight-line).

L. Accounting Entries. Internal Use Software Account 1830 shall be used to record the cost of Internal Use Software. Table 6-16, below, illustrates common example entries for the account.

ACCOUNTING ENTRIES TO ACCOUNT 1830
INTERNAL USE SOFTWARE

1.	Dr	1830 Internal Use Software	
	Cr	2110 Accounts Payable	
		To record the acquisition cost incurred by the DoD for purchased software.	
2.	Dr	1832 Internal Use Software In Development	
	Cr	6610 Cost Capitalization Offset	
		To record cost incurred for software under development.	
	Dr	1830 Internal Use Software	
	Cr	1832 Internal Use Software In Development	
		To transfer cost of software under development to the software account upon completion of acceptance testing.	
5.	Dr	1839 Accumulated Depreciation on Internal Use Software	
	Dr	7210 Other Losses	
	Cr	1830 Internal Use Software	
		To write off unusable software that has already been placed in service, but is no longer useful.	
4.	Dr	6710 Depreciation, Amortization and Depletion	
	Cr	1839 Accumulated Amortization on Internal Use Software	
		To record depreciation expense for the current accounting period.	
6.	Dr	1839 Accumulated Amortization on Internal Use Software	
	Cr	1830 Internal Use Software	
		To write off fully depreciated Internal Use Software upon disposal.	

TABLE 6-16

INTERNAL USE SOFTWARE CAPITALIZATION DECISION TREE

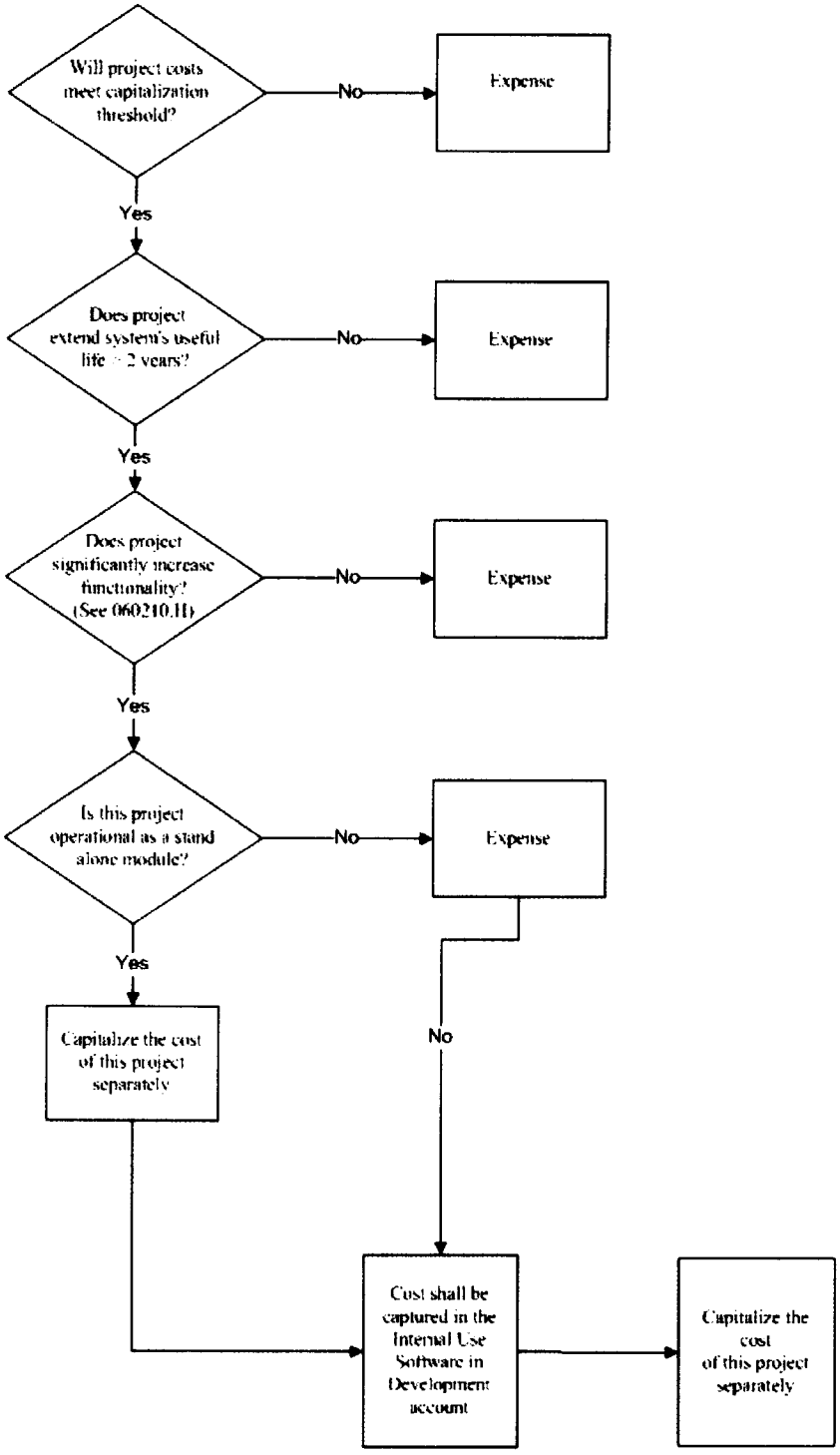


TABLE 6-17

★0603 ACCOUNTING FOR STEWARDSHIP PP&E

060301. General

A. Stewardship PP&E is property owned or controlled by DoD that meets the definition of one of the following two categories:

1. Heritage Assets are PP&E of historical, natural, cultural, educational significance; artistic importance; or significant architectural characteristics.

2. Stewardship Land is land and land rights other than that acquired for or in connection with General PP&E, land acquired via the public domain, or land acquired at no cost.

B. Heritage Assets consists of items whose physical properties resemble those of General PP&E and are traditionally capitalized in commercial-type financial statements. The nature of these items, however, differ from General PP&E in that their values may be indeterminable or may have little financial meaning (e.g., museum collections, monuments, assets acquired in the formation of the nation), or that allocating the cost of such assets (e.g., military weapons systems) to accounting periods that benefit from the ownership of such assets is not meaningful.

C. The Statement of Federal Financial Accounting Standards 29 (SFFAS 29) reclassifies the reporting of all Heritage Assets and Stewardship Land from Required Supplemental Stewardship Information (RSSI) to basic information in the financial statements. The standard requires that entities reference a note on the balance sheet that discloses information about Heritage Assets and Stewardship Land, but does not require the reporting of acquisition cost. This standard is effective for reporting periods beginning after September 30, 2005.

060302. Heritage Assets

A. Definition

1. Heritage Assets are PP&E that are unique for one or more of the following reasons:

a. historical or natural significance,

b. cultural, educational, or artistic (e.g., aesthetic) importance, or

c. significant architectural characteristics.

2. Heritage Assets are generally expected to be preserved indefinitely.

3. The cost or value should not serve as a precursor when deciding if an item should be classified as a Heritage Asset. DoD Components should refer to published register, and their own judgment, when making this assessment. DoD Components should assess the importance of an item relative to the ideals of the nation, its citizens and institutions. Display equipment, defined as old or obsolete military equipment which is not considered to warrant museum-level heritage significance, but is on outside display at military installations, is not a Heritage Asset. Historic significance may be determined if a property/asset meets at least one of the following criteria used by the National Register of Historic Places criteria:

a. association with historic events or activities (e.g., battles, development of military technology, prehistoric cultural patterns);

b. association with important persons (e.g., important military leaders, political leaders, inventors);

c. distinctive design or physical characteristics (e.g., work of a master architect, landscape architect, planner, or engineer; work representative of a particular approach to military design or a particular type or style of architecture or engineering; a formative example of standardized planned military housing); and

d. potential to provide important information about prehistory or history (e.g., an archeological site on a military installation).

4. Heritage Assets may in some cases serve two purposes: (a) a heritage function and (b) a government operations function. In cases where a Heritage Asset serves two purposes, the Heritage Asset shall be considered, and classified as, a Multi-Use Heritage Asset. An example of a Multi-Use Heritage Asset is the Pentagon, which has been listed on the National Register of Historic Places and also is used as an office building. The full cost of acquisition, betterment or reconstruction of assets classified as Multi-Use Heritage Assets shall be capitalized as General PP&E and depreciated. If a Heritage Asset is not predominantly used in general government operations, it shall be referred to, or classified as, a Heritage Asset and shall not be capitalized as General PP&E.

060303 Recognition and Measurement

A. Heritage Assets

1. The cost of acquiring, improving, reconstructing, or renovating Heritage Assets, other than Multi-Use Heritage Assets, shall be recognized as a cost on the Statement of Net Cost for the period in which the cost is incurred. The cost shall include all costs incurred to bring the asset to its current condition and location.

2. Except for assets classified as Multi-Use Heritage Assets, no amounts for Heritage Assets acquired through donation or devise (a will or clause of a will disposing of property) shall be recognized in the cost of Heritage Assets.

3. Transfers of Heritage Assets, except for Multi-Use Heritage Assets, from one component to another do not affect the net cost of operations or net position of either component. In some cases, assets included in General PP&E may be transferred to a component for use as Heritage Assets. In this instance, the transferring component should recognize a transfer-out of capitalized assets.

C. Multi-Use Heritage Assets

1. The costs of acquisition, improvement, or reconstruction of Multi-Use Heritage Assets shall be capitalized as General PP&E and depreciated if the costs equal or exceed DoD capitalization threshold. Such Multi-Use Heritage Assets shall be depreciated over their useful life or the period of time they are expected to be used in government operations, whichever is shorter.

2. Assets classified as Multi-Use Heritage Assets and acquired through donation or devise shall be recognized as General PP&E at the fair value of the assets at the time received and the amount shall also be recognized as non-exchange revenues on the Statement of Financing.

3. Transfers of Multi-Use Heritage Assets from one Federal entity to another are transfers of capitalized assets. The receiving entity shall recognize a transfer-in as an additional financing source and the transferring entity shall recognize a transfer-out. The value recorded should be the transferring entity's book value of the Multi-Use Heritage Asset. If the receiving entity is not provided the book value, the Multi-Use Heritage Asset shall be recorded at its estimated fair value.

060305. Disclosures.

DoD Components with Heritage Assets should reference a note on the balance sheet that discloses information about Heritage Assets, but no asset dollar amount should be shown. The note disclosure shall provide the following:

1. A concise statement explaining how they relate to the mission of the entity.

2. A brief description of the entity's stewardship policies for heritage assets.

3. The number of physical units by major category that were acquired and the number of physical units by major category that were withdrawn during the reporting period. The appropriate level of aggregation and physical units (by collection or individual units) of measure for each major category should be meaningful and determined by the preparer based on

the entity's mission, types of heritage assts, and how it manages the assets. For Each major category of heritage asset, the following should be reported:

a. The number of physical units by major category; major categories should be classified by collection or non-collection type heritage assts for which the entity is the steward as of the end of the reporting period. This will go into effect after September 30, 2007 and should be reported in RSI until effective date;

b. The number of physical units by major category that were acquired and the number of physical units by major category that were withdrawn during the reporting period. This will go into effect after September 30, 2008 and should be reported in RSI until effective date; and

c. A description of the major methods of acquisition and withdrawal of heritage assets during the reporting period. This should include disclosure of the number of physical units (by major category) of transfers of heritage assets between Federal entities and the number of physical units (by major category) of heritage assets acquired through donation or through donation of devise during the reporting period should be disclosed, if known and material. This will go into effect after September 30, 2008 and should be reported in RSI until effective date.

4. DoD Components shall report the condition of the Heritage Assets as Required Supplementary Information.

060306. Stewardship Land

A. Definitions. The following are definitions of Stewardship Land:

1. Land not acquired for, or in connection with, items of General PP&E is Stewardship Land.

2. "Acquired for or in connection with" is defined as including land acquired with the intent to construct General PP&E and land acquired in combination with General PP&E, including not only land used as the foundation, but also adjacent land considered to be General PP&E common grounds.

3. Land is defined as the solid part of the surface of the earth. Excluded from the definition are natural resources (e.g., depletable resources, such as mineral deposits and petroleum, renewable resources such as timber and the outer continental shelf resources).

4. Land and land rights owned by DoD, or DoD Component, and acquired for or in connection with items of General PP&E shall be accounted for and reported as General PP&E.

5. Land rights are interests and privileges held by DoD, or DoD Component, in land owned by others, such as leaseholds, easements, water and water power rights, diversion rights, submersion rights, rights-of-way, mineral rights, and other like interests in land.

6. Land and land rights owned by DoD, or DoD Component, but not acquired for or in connection with items of General PP&E shall be reported as Stewardship Land. Land that is standing idle and not used to fulfill mission responsibilities is Stewardship Land. Such land generally should be viewed as an independent, stand-alone asset and not an integral part of operations.

060307 Recognition and Measurement. Land classified as Stewardship Land shall be reported as basic information within the financial statements of the DoD Component responsible for such land. The cost of the acquisition of Stewardship Land shall be recognized on the Statement of Net Cost for the period in which the cost is incurred. The cost should include all costs to prepare Stewardship Land for its intended use (e.g., razing a building). In some cases, land may be acquired along with existing structures. The following treatments shall apply:

A. If the structure would be deemed a heritage asset and is significant in and of itself, the DoD Component shall use its judgment as to whether the acquisition cost shall be treated as to the cost of Stewardship Land, Heritage Asset or both.

B. If the structure is to be used in operations (e.g., as General PP&E), but 1) the value of the structure is insignificant, or 2) its acquisition is merely a byproduct of the acquisition of the land, the cost in its entirety shall be treated as an acquisition of Stewardship Land.

C. Significant structures that have an operating use (e.g., a constructed hotel or employee housing block) should be treated as General PP&E by identifying the cost attributable to General PP&E and segregating if from the cost of Stewardship Land acquired.

D. Amounts for Stewardship Land acquired through donation or devise shall not be recognized in the cost of Stewardship Land.

E. Transfers of Stewardship Land from one component to another, does not affect the net cost of operations or net position of either entity. In some cases, land included in General PP&E may be transferred to a component for use as Stewardship Land. In this instance, the transferring component shall recognize a transfer-out of capitalized assets.

060308 Disclosures.

A. DoD Components with Stewardship Land shall reference a note on the balance sheet that discloses information about Stewardship Land, but no asset dollar amount shall be shown. The note disclosure shall provide the following:

1. a concise statement explaining how it relates to the mission of the entity.

2. a brief description of the policies for Stewardship Land. The policies need to include, but are not limited to, preserving and maintaining condition, providing public use or access, and enhancing the stewardship land's value over time.

3. a concise description of each major category of Stewardship Land use .

4. the number of physical units by major category. The appropriate level of aggregation and physical units of measure for each category of stewardship land use should be meaningful and determined by the preparer based on the entity's mission, types of stewardship land use, and how it manages the assets. For each major category of stewardship land use the following should be reported:

a. The number of physical units by major category of stewardship land use for which the entity is the steward as of the end of the reporting period. This will go into effect after September 30, 2007 and should be reported in RSI until effective date;

b. The number of physical units by major category of stewardship land use that were acquired and the number of physical units by major category of stewardship land use that were withdrawn during the reporting period. This will go into effect after September 30, 2008 and should be reported in RSI until effective date; and

c. A description of the major methods of acquisition and withdrawal of stewardship land during the reporting period. This should include disclosure of physical units (by major category of stewardship land use) of transfers of stewardship land between Federal entities and the number of physical units (by major category of stewardship land use) of stewardship land acquired through donation or devise, if material. In addition, the fair value of stewardship land acquired through donation or devise during the reporting period should be disclosed, if known and material. This will go into effect after September 30, 2008 and should be reported in RSI until effective date.

B. Components should report the condition of Stewardship Land as Required Supplementary Information.

CHAPTER 6

ANNEX 1

PREPONDERANCE OF USE POLICY

This section illustrates the preponderance of use policy as discussed in section 060105. B.

Case I – General Fund Military Services
Criteria:

- Army is a tenant on an Air Force Installation.
- Army is the preponderant user of the facility.

Original Asset	
Original Facility Acquisition Cost	$200,000.00
Financial Reporting Entity for Acquisition Cost	***Air Force***
Capital Improvement	
Capital Improvement Cost	$100,000.00
Capital Improvement Organization	Army
Capital Improvement Fund	General Fund
Financial Reporting Entity for Capital Improvement	***Air Force***

Case II – General Fund Military Services
Criteria:

- Army is a tenant on an Air Force Installation.
- Army is not the preponderant user of the facility
- Air Force is the preponderant user of the facility.

Original Asset	
Original Facility Acquisition Cost	$200,000.00
Financial Reporting Entity for Acquisition Cost	***Air Force***
Capital Improvement	
Capital Improvement Cost	$100,000.00
Capital Improvement Organization	Army
Capital Improvement Fund	General Fund
Financial Reporting Entity for Capital Improvement	***Air Force***

Case III– General Fund Defense Agency
Criteria:

- GF Defense Agency is a tenant on an Air Force Installation.
- GF Defense Agency is the preponderant user of the facility.

Original Asset	
Original Facility Acquisition Cost	$200,000.00
Financial Reporting Entity for Acquisition Cost	***Reporting Defense Agency***
Capital Improvement	
Capital Improvement Cost	$100,000.00
Capital Improvement Organization	Defense Agency
Capital Improvement Fund	General Fund
Financial Reporting Entity for Capital Improvement	***Reporting Defense Agency***

Case IV– General Fund Defense Agency
Criteria:

- GF Defense Agency is a tenant on an Air Force Installation.
- GF Defense Agency is not the preponderant user of the facility.
- Air Force is the preponderant user of the facility.

Original Asset	
Original Facility Acquisition Cost	$200,000.00
Financial Reporting Entity for Acquisition Cost	***Air Force***
Capital Improvement	
Capital Improvement Cost	$100,000.00
Capital Improvement Organization	Defense Agency
Capital Improvement Fund	General Fund
Financial Reporting Entity for Capital Improvement	***Air Force***

Case V– Working Capital Fund Activity
Criteria:

- DLA is a tenant on an Air Force Installation.
- DLA is the preponderant user of the facility.

Original Asset	
Original Facility Acquisition Cost	$200,000.00
Financial Reporting Entity for Acquisition Cost	***DLA***
Capital Improvement	
Capital Improvement Cost	$100,000.00
Capital Improvement Organization	DLA
Capital Improvement Fund	Working Capital Fund
Financial Reporting Entity for Capital Improvement	***DLA***

Case VI – Working Capital Fund Activity
Criteria:

- DLA is a tenant on an Air Force Installation.
- DLA is not the preponderant user of the facility.
- Air Force is the preponderant user of the facility.

Original Asset	
Original Facility Acquisition Cost	$200,000.00
Financial Reporting Entity for Acquisition Cost	***Air Force***
Capital Improvement	
Capital Improvement Cost	$100,000.00
Capital Improvement Organization	DLA
Capital Improvement Fund	Working Capital Fund
Financial Reporting Entity for Capital Improvement	***DLA***

Case VII – Working Capital Fund Activity
Criteria:

- DLA is a tenant on an Air Force Installation.
- DLA is the preponderant user of the facility.
- The capital improvement to the facility is funded as follows:
  - DLA 50 percent - WCF
  - DeCA 30 percent - WCF
  - Air Force 20 percent- GF

Original Asset	
Original Facility Acquisition Cost	$200,000.00
Financial Reporting Entity for Acquisition Cost	***DLA***
Capital Improvement	
Capital Improvement Cost	$100,000.00
Capital Improvement Organization	DLA, DeCA, AF
Capital Improvement Fund	WCF, GF
Financial Reporting Entity for Capital Improvement - ***DLA*** *Air Force 20% share is reported by the preponderant user* - ***DeCA***	***Amount per Entity*** ***$50,000 + $20,000*** ***$30,000***

Case VIII – Working Capital Fund Activity
Criteria:

- DLA is a tenant on an Air Force Installation.
- DLA is NOT the preponderant user of the facility.
- Air Force is the preponderant user of the facility.
- The capital improvement to the facility is funded as follows:
  - o DLA 50 percent - WCF
  - o DeCA 30 percent - WCF
  - o Air Force 20 percent - GF

Original Asset	
Original Facility Acquisition Cost	$200,000.00
Financial Reporting Entity for Acquisition Cost	***Air Force***
Capital Improvement	
Capital Improvement Cost	$100,000.00
Capital Improvement Organization	DLA, DeCA, AF
Capital Improvement Fund	WCF, GF
Financial Reporting Entity for Capital Improvement	***Amount per Entity***
- DLA	***$50,000***
- DeCA	***$30,000***
- Air Force	***$20,000***

CHAPTER 6

ANNEX 2

CONSTRUCTION-IN-PROGRESS COST MATRIX

Cost Type	Description
Cost of contract work	Amounts paid for work performed under contract, as well as any incentive fees paid to contractors to reward performance goals.
Direct cost of labor	The direct cost of labor and all associated fringe benefits in connection with the construction project. Includes both military and civilian labor costs.
Direct cost of materials and supplies	The purchase price, the cost of inspection, and loading assumed by the carrier.
Cost of Supervision, Inspection, and Overhead (SIOH)	Support associated with the administration of contracts for facility projects. May include contract award, payments, inspections, material testing, and other actions taken during contract execution.
Cost of transportation	Amounts paid for transportation of workers, materials, and supplies in connection with the construction project.
Cost of handling and storage	Amount paid for packaging and storing the materials and supplies and equipment used in the construction project.
Cost of injuries and damages	Costs incurred as a result of injuries to people or property incurred directly as a result of the construction project.
Cost of legal and recording fees	Legal fees incurred to bring the asset to its intended use (e.g., title or recording fees).
Cost of architecture and engineering studies	Amounts paid for engineering, architectural, and other outside services for designs, plans, specifications, and surveys. May include design reviews, environmental impact studies, and soil testing for the new construction projects.
Cost of facility and site preparation	Amounts paid to prepare the site for new construction, such as soil removal and restoration. Includes amount paid to prepare the asset for its intended use, such as installation of utilities in a facility.

Cost Type	Description
Cost of installed equipment	Fixed equipment and related installation costs required for activities in a facility.
Cost of government furnished equipment or material (GFE, GFM)	An appropriate share of the cost of the government furnished equipment and material and facilities used in construction work.
Cost of donated assets	The fair market value of facilities and equipment donated to the government, as authorized by a special legislation, in connection with the construction project.

CHAPTER 6

ANNEX 3

CAPITAL IMPROVEMENT DEPRECIATION

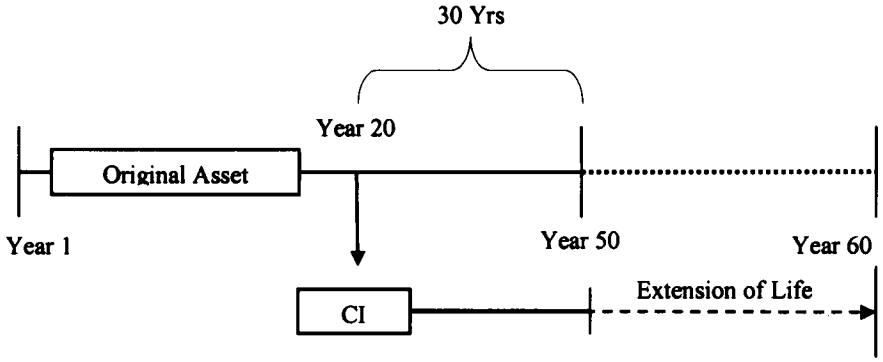
At present, the DoD FMR requires the acquisition costs for all permanent buildings to be depreciated over 40 years and each capital improvement made to the building to be independently depreciated over 20 years. The following Cases I through VIII illustrate depreciation methodology for capital improvements more closely in compliance with the FASAB requirements.

Case I: The Capital Improvement Extends the Useful Life of Existing PP&E

Original Facility Acquisition Cost	$200,000
Original Estimated Useful Life (Yrs)	50
Annual Depreciation Expense	$4,000
(*Using the Straight Line Depreciation Method*)	
Remaining Useful Life After 20 Years (Yrs)	**30**
Accumulated Depreciation for 20 Years: 20*$4,000	$80,000
Net Book Value: $200,000 - $80,000	***$120,000***
Capital Improvement – **Year 20**	
Capital Improvement Cost	$200,000
Useful Life of the Capital Improvement (Yrs)	40
Impact on total useful life by the Capital Improvement	+10
Depreciation Expense Baseline Starting In Year 20	
Cost Baseline for Depreciation: *Net Book Value + Capital Improvement Cost*	$320,000
Revised Remaining Estimated Useful Life (Yrs): *30 + 10*	40
Revised Annual Depreciation Expense	$8,000

Examples – Extends the Useful Life:

- Major replacements or reconstruction to restore facilities damaged by a natural disaster (i.e., reconstruction of a new building on an existing foundation).



Case II: The Capital Improvement Increases the General PP&E Asset's Capacity, Size, Efficiency, or Modifies the Functionality/Use

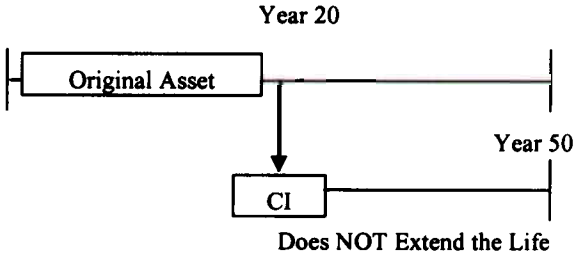
The improvement has the same expected useful life as *the remaining useful life of the* PP&E asset to which it relates. The improvement does not extend the life of the associated PP&E asset.

Original Facility Acquisition Cost	$200,000
Original Estimated Useful Life (Yrs)	50
Annual Depreciation Expense	$4,000
(Using the Straight Line Depreciation Method)	
Remaining Useful Life After 20 Years (Yrs)	**30**
Accumulated Depreciation for 20 Years: 20*$4,000	$80,000
Net Book Value: $200,000 - $80,000	***$120,000***
Capital Improvement – **Year 20**	
Capital Improvement Cost	$100,000
Useful Life of the Capital Improvement (Yrs)	30
Impact on total useful life by the Capital Improvement	0
Depreciation Expense Baseline Starting In Year 20	
Cost Baseline for Depreciation: *Net Book Value + Capital Improvement Cost*	$220,000
Remaining Estimated Useful Life (Yrs): *Unchanged*	30
Revised Annual Depreciation Expense	$7,300

Examples

Increase Capacity

- Raising the roof of the warehouse to increase cubic feet.



Increase Size

- Build an addition, expansion or extension to the building, i.e., increase footprint.

Increase Efficiency

- Install building insulation.

Modify Functionality

- Convert an office to a warehouse.
- Upgrade architectural elements of a facility that has not or is not failing, e.g., upgrade a flat roof to a pitched roof.

Case III: The Capital Improvement Increases the General PP&E Asset's Capacity, Size & Efficiency or Modifies the Functionality/Use

The improvement has an expected useful life that differs from the expected useful life of the PP&E asset to which it relates. The improvement does not extend the life of the associated PP&E asset.

Original Facility Acquisition Cost	$200,000
Original Estimated Useful Life (Yrs)	50
Annual Depreciation Expense	$4,000
Remaining Useful Life After 20 Years (Yrs)	**30**
Accumulated Depreciation for 20 Years: 20*$4,000	$80,000
Net Book Value: $200,000 - $80,000	***$120,000***
Capital Improvement – **Year 20**	
Capital Improvement Cost	$100,000
Extension of the Original Useful Life of the Associated Asset (Yrs)	0
Capital Improvement Estimated Useful Life (Yrs)	20
Depreciation Expense Baseline Starting In Year 20	

Record I:	
Cost Baseline for Depreciation: *Net Book Value* of Facility	$120,000
Remaining Estimated Useful Life of Facility (Yrs)	30
Revised Annual Depreciation Expense	$4,000
Record II:	
Cost Baseline for Depreciation: *Capital Improvement Cost*	$100,000
Estimated Useful Life of Capital Improvement (Yrs)	20
Revised Annual Depreciation Expense	$5,000

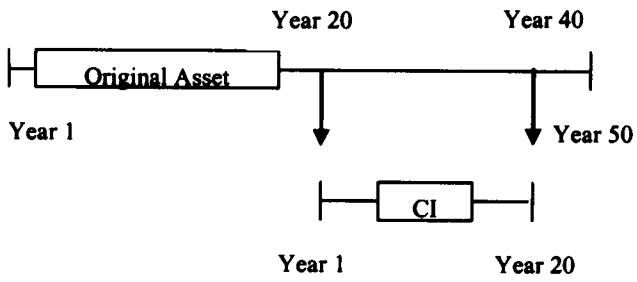
Examples

Increase Efficiency

- Install HVAC system where none existed.

Modify Functionality

- Install elevator where none existed.



Case IV: The Original Asset Is Fully Depreciated

The capital improvement increases the original asset's size, capacity, and efficiency or modifies the functionality. The improvement does not extend the life of the associated PP&E asset.

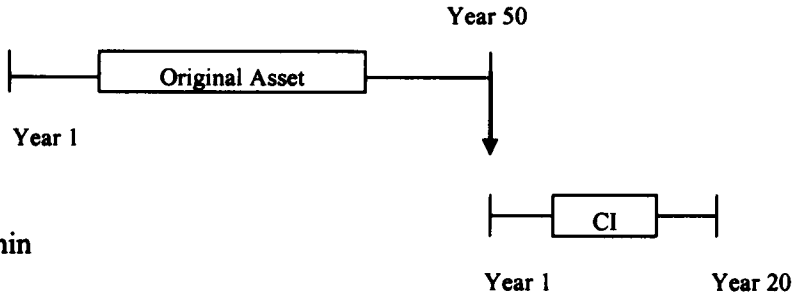
Original Facility Acquisition Cost	$200,000
Original Estimated Useful Life (Yrs)	50
Annual Depreciation Expense	$4,000
Remaining Useful Life After 50 Years (Yrs)	**0**
Accumulated Depreciation for 50 Years: 50*$4,000	$200,000
Net Book Value: $200,000 - $200,000	***$0***
Capital Improvement – **Year 50**	
Capital Improvement Cost	$100,000
Extension of the Useful Life of the Associated Asset	0
Capital Improvement Estimated Useful Life (Yrs)	20
Depreciation Expense Baseline Starting In Year 50	
Record I:	

Cost Baseline for Depreciation: *Net Book Value* of Facility	$0
Remaining Estimated Useful Life of Facility (Yrs)	0
Revised Annual Depreciation Expense	$0
Record II:	
Cost Baseline for Depreciation: *Capital Improvement Cost*	$100,000
Remaining Estimated Useful Life (Yrs)	20
Revised Annual Depreciation Expense	$5000

Examples

Increase Size

- Extend utility system (e.g., power lines) to the previously un-served area



Modify Functionality

- Construct office space within a warehouse

Case V: The Original Asset Is Fully Depreciated

The improvement (major renovation) extends the life of the associated PP&E asset.

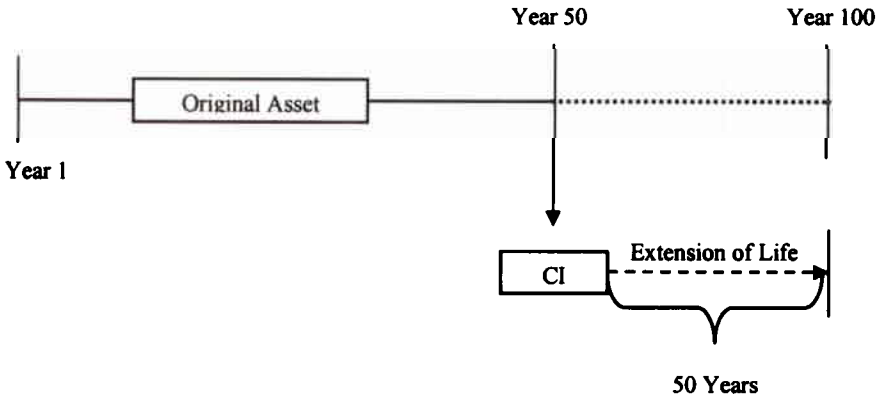
Original Facility Acquisition Cost	$200,000
Original Estimated Useful Life (Yrs)	50
Annual Depreciation Expense	$4,000
Remaining Useful Life After 50 Years (Yrs)	**0**
Accumulated Depreciation for 50 Years: 50*$4,000	$200,000
Net Book Value: $200,000 - $200,000	***$0***
Capital Improvement – **Year 50**	
Capital Improvement Cost	$1,000,000
Extension of the Useful Life of the Associated Asset (Yrs)	50
Depreciation Expense Baseline Starting In Year 50	
Cost Baseline for Depreciation: *Net Book Value + Capital Improvement Cost*	$1,000,000

Revised Remaining Estimated Useful Life (Yrs): *0 + 50*	50
Revised Annual Depreciation Expense	$20,000

Examples

Extends the Useful Life

- Pentagon renovation project.



Case VI: The Capital Improvement Increases the General PP&E Asset's Capacity, Size and Efficiency or Modifies the Functionality/Use

The improvement has an expected useful life that differs from the expected useful life of the PP&E asset to which it relates. The improvement does not extend the life of the associated PP&E asset. However, it is assumed that the original asset will continue to be used past its estimated economic life of 50 years.

Original Facility Acquisition Cost	$200,000
Original Estimated Useful Life (Yrs)	50
Annual Depreciation Expense	$4,000
Remaining Useful Life After 45 Years (Yrs)	**5**
Accumulated Depreciation for 45 Years: 45*$4,000	$180,000
Net Book Value: $200,000 - $180,000	***20,000***
Capital Improvement – **Year 45**	
Capital Improvement Cost	$100,000
Extension of the Original Useful Life of the Associated Asset (Yrs)	0
Capital Improvement Estimated Useful Life (Yrs)	20

Depreciation Expense Baseline Starting In Year 45	
Record I:	
Cost Baseline for Depreciation: Net Book Value of Facility	$20,000
Remaining Estimated Useful Life of Facility (Yrs)	5
Revised Annual Depreciation Expense	$4,000
Record II:	
Cost Baseline for Depreciation: Capital Improvement Cost	$100,000
Estimated Useful Life of Capital Improvements (Yrs)	20
Revised Annual Depreciation Expense	$2,500

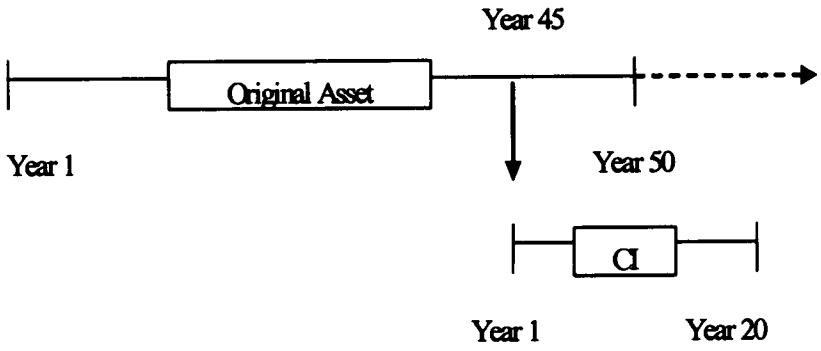
Examples

Increase Efficiency

- Install HVAC system where none existed.

Modify Functionality

- Install elevator where none existed.



Case VII: The Capital Improvement Increases the General PP&E Asset's Capacity, Size, and Efficiency or Modifies the Functionality/Use

The capital improvement is funded by the WCF activity that is not the preponderant user of the facility improved. The associated asset will be reported by the preponderant user of that facility when the capital improvement is reported and depreciated by the WCF activity funding that improvement.

Original Facility Acquisition Cost	$200,000
Original Estimated Useful Life (Yrs)	50
Annual Depreciation Expense	$4,000
Remaining Useful Life After 20 Years (Yrs)	30
Accumulated Depreciation for 20 Years: 20*$4,000	$80,000
Net Book Value: $200,000 - $80,000	***$120,000***
Capital Improvement – **Year 20**	

Capital Improvement Cost	$100,000
Capital Improvement Estimated Useful Life (Yrs)	20
Depreciation Expense Baseline Starting In Year 20	
Record I:	
Reported by the Preponderant User	
Cost Baseline for Depreciation: Net Book Value of Facility	$120,000
Remaining Estimated Useful Life of Facility (Yrs)	30
Revised Annual Depreciation Expense	$4,000
Record II:	
Reported by the WCF Activity (*Not a Preponderant User*)	
Cost Baseline for Depreciation: Capital Improvement Cost	$100,000
Estimated Useful Life of Capital Improvements (Yrs)	20
Revised Annual Depreciation Expense	$2,500

Examples:

Increase Capacity

- Raising the roof of the warehouse to increase cubic feet.

Increase Size

- Build an addition, expansion or extension to the building, i.e., increase footprint.

Increase Efficiency

- Install building insulation.
- Install HVAC system where none existed.

Modify Functionality

- Convert an office to a warehouse.
- Construct office space within a warehouse.
- Upgrade architectural elements of a facility that has not or is not failing, e.g., upgrade a flat roof to a pitched roof.
- Install elevator where none existed.